



Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 19,243	CLGT IN
	REUTERS CODE
S&P CNX: 5,702	COLG.BO

26 October 2007

Neutral

Previous Recommendation: Neutral

Rs386

Equity Shares (m)	136.0
52-Week Range (Rs)	434/291
1,6,12 Rel. Perf. (%)	-18/-22/-48
M.Cap. (Rs b)	52.5
M.Cap. (US\$ B)	1.3

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	12,951	1,933	14.2	47.9	27.2	187.1	70.1	69.3	3.9	24.0
03/08E	14,777	2,462	18.1	27.4	21.3	65.1	136.3	133.5	3.5	19.5
03/09E	16,733	2,923	21.5	18.7	18.0	39.3	272.9	262.8	3.1	16.1

Colgate's 2QFY08 results are below expectations. Adjusted PAT was up 8.3% YoY at Rs547m, lower than our estimate of Rs591m. However, topline growth of 13.7% YoY at Rs3.6b was in line with our estimate of Rs3.6b.

Gross margin expanded 100bp due to benefits from excise free unit in Baddi. EBITDA margin declined 190bp, as ad spend to sales increased 520bp. The increase was on account of brand building initiatives during the quarter. EBITDA increased just 1.1% to Rs564m. Higher yield on investments increased other income by 60%, which enabled 8.3% increase in adjusted PAT.

Colgate achieved overall volume growth of 7% while toothpastes grew 9%. Market share in toothpaste and toothbrush increased to 49.1% and 35.1% respectively. All the major brands like Colgate Dental Cream, Active Salt, Max Fresh and Cibaca reported positive volume growth.

We expect the company to report steady growth in the coming quarters. We expect EBITDA margin to expand as ad spend would even out during the course of the year. Colgate is a pure play on the oral care market in India, and lacks impressive track record in other product categories. The stock trades at 21.3x FY08E and 18x FY09E earnings. Maintain **Neutral**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY07				FY08				FY07	FY08E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Net Sales	3,096	3,200	3,223	3,433	3,507	3,639	3,700	3,932	12,951	14,777	
YoY Change (%)	19.9	15.1	12.8	13.6	13.3	13.7	14.8	14.5	15.2	14.1	
Total Exp	2,695	2,642	2,679	2,897	2,817	3,074	3,000	3,214	10,863	12,106	
EBITDA	401	558	544	536	689	564	700	718	2,089	2,671	
Margins (%)	12.9	17.4	16.9	15.6	19.7	15.5	18.9	18.3	16.1	18.1	
Depreciation	37	36	44	37	44	49	45	40	-153	179	
Interest	2	2	3	3	3	6	1	-4	-10	6	
Other Income	148	122	166	174	135	196	150	116	585	596	
PBT	509	643	664	670	777	705	804	797	2,512	3,083	
Tax	149	137	161	172	158	158	158	147	579	621	
Rate (%)	29.2	21.4	24.2	25.6	20.3	22.4	19.7	18.4	23.0	20.1	
Adjusted PAT	361	505	503	498	619	547	646	650	1,933	2,462	
YoY Change (%)	1.6	63.7	-13.6	34.6	71.6	8.3	28.3	30.5	47.9	27.4	
Extraordinary Expenses	0	274	0	-8	10	0	-10	-20	331	-20	
Reported PAT	361	232	503	506	609	547	656	670	1,602	2,482	
YoY Change (%)	28.9	-24.9	20.6	36.7	68.8	136.2	30.3	32.4	16.4	55.0	

E: MOST Estimates

Steady volume growth in toothpastes and toothbrushes

Colgate reported an overall volume growth of 7% during the quarter. Volume growth at 9% in the toothpaste segment was steady, with all the major brands like Colgate Dental Cream, Active Salt, Max Fresh and Cibaca reporting positive volume growth. Traditional brands like Colgate Dental cream and Colgate Cibaca continues to grow. The company has not only been maintaining its dominance but gaining market share at the cost of its competitors.

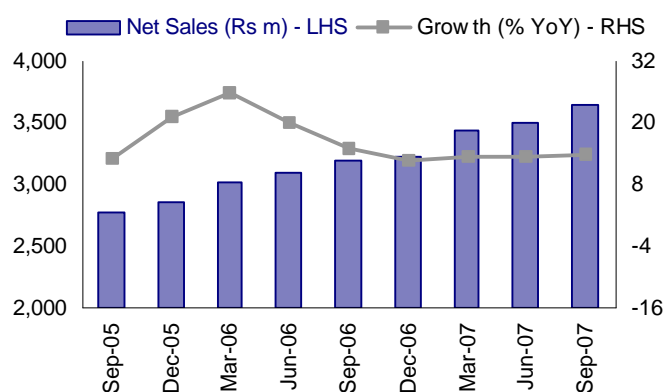
MARKET SHARE'S OF PLAYERS (%)

	JAN-MARCH '07	MARCH-JUNE '07	JUNE-SEPT '07
Colgate	48.2	49.2	49.1
HLL	30.0	30.0	N.A
Dabur	10.0	11.5	12.3

Source: Company/Motilal Oswal Securities

Toothbrushes also continued to post a steady volume reported. For 1HFY08, the market share of toothbrushes increased to 35.1%. The company has launched a slew of toothbrushes like Colgate Motion, Colgate Super Flexible and Colgate 360 which would enable Colgate to increase its market share going forward.

TREND IN SALES GROWTH

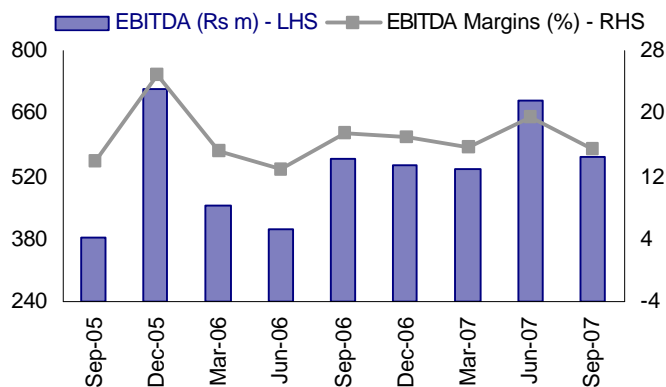


Source: Company/Motilal Oswal Securities

Higher ad spend impacted EBITDA margin

Although gross margin in 2QFY08 expanded 100bp to 57.4% as against 56.5% in 2QFY07, EBITDA margin declined 190bp to 15.5%. Gross margin expanded due to benefits from excise free unit in Baddi. The decline in EBITDA margin was on account of increase in the ad spend. Advertising and promotion expenditure during the quarter grew 59% YoY at Rs662m. For 1HFY08, the ad spend stood at Rs1.2b - an increase of 21%. YoY. The increase was on account of brand building initiatives during the quarter. EBITDA increased just 1.1% at Rs564m. Higher yield on investments increased other income by 60% which enabled 8.3% increase in adjusted PAT. We expect EBITDA margin to expand as ad spend would even out during the course of the year.

TREND IN EBITDA AND EBITDA MARGIN



Source: Company/Motilal Oswal Securities

Valuation and view

We expect the company to report steady growth in the coming quarters. We expect EBITDA margin to expand as ad spend would even out during the course of the year. Colgate is a pure play on the oral care market in India, and lacks impressive track record in other product categories. The stock trades at 21.3x FY08E and 18x FY09E earnings. **Maintain Neutral.**

Colgate Palmolive: an investment profile

Company description

Colgate is a market leader in the toothpaste segment with a market share of 50%. With the relaunch of Cibaca Top in early CY04 the company has captured 38% of low price segment. Oral care is one of the most underpenetrated segments of the FMCG market with a penetration of 32%. Colgate has invested Rs700m in a toothpaste facility at Baddi in Himachal Pradesh which will accrue fiscal benefits.

Key investment arguments

- Colgate has regained its leadership position in the oral care market. In FY05, it grew 14% in volumes compared to 9% industry growth.
- Pricing environment has improved as is evident by the latest price hikes. This would aid margin improvement.

Key investment risks

- P&G's entry in the oral care market with its Crest brand, at a lower price point than Colgate.
- Higher input cost prices could affect margins.

Recent developments

- Company has announced capital reduction by paying off Rs9 from the face value as deemed dividend to the shareholders has been approved by Bombay High court. The same would be implemented in December 2007.

Valuation and view

- We have an EPS forecast of Rs18.1 for FY08 and Rs21.5 for FY09.
- The stock is trading at 21.3x FY08E EPS and 18x FY09E EPS. We maintain **Neutral** rating on the stock.

Sector view

- We have a cautious view on the sector, given the inflationary tendency in the economy, which could impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		COLGATE	HLL	NESTLE
P/E (x)	FY08E	21.3	26.7	24.8
	FY09E	18.0	23.7	20.0
EV/EBITDA (x)	FY08E	19.5	23.5	15.0
	FY09E	16.1	20.3	12.3
EV/Sales (x)	FY08E	3.5	3.3	3.1
	FY09E	3.1	3.0	2.7
P/BV (x)	FY08E	65.1	16.4	16.9
	FY09E	39.3	15.3	15.3

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	51.0	51.0	51.0
Domestic Inst	11.2	9.9	10.7
Foreign	11.2	12.1	10.8
Others	26.6	27.0	27.5

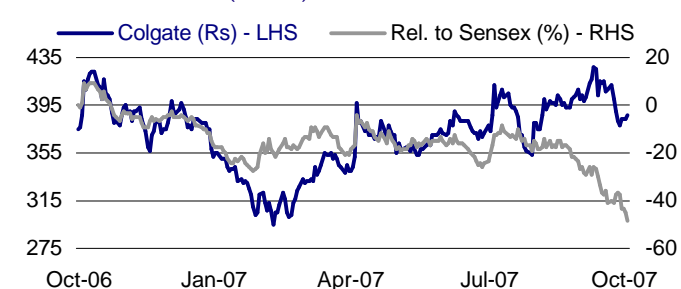
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	18.1	17.5	3.3
FY09	21.5	21.2	1.5

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
386	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Net Sales	9,642	11,242	12,951	14,777	16,733	
Change (%)	2.7	16.6	15.2	14.1	13.2	
Total Expenditure	-7,968	-9,504	-10,863	-12,106	-13,523	
EBITDA	1,674	1,738	2,089	2,671	3,210	
Change (%)	14.4	3.8	20.2	27.9	20.2	
Margin (%)	17.4	15.5	16.1	18.1	19.2	
Depreciation	-224	-314	-153	-179	-189	
Int. and Fin. Charges	-12	-6	-10	-6	-6	
Other Income	342	461	254	616	639	
Profit before Taxes	1,781	1,879	2,181	3,103	3,654	
Change (%)	17.6	5.5	16.1	42.3	17.8	
Margin (%)	18.5	16.7	16.8	21.0	21.8	
Tax	-700	-529	-746	-652	-767	
Deferred Tax	52	26	167	31	37	
Tax Rate (%)	-36.4	-26.8	-26.5	-20.0	-20.0	
Adjusted PAT	1,124	1,307	1,933	2,462	2,923	
Change (%)	4.1	16.3	47.9	27.4	18.7	
Margin (%)	11.7	11.6	14.9	16.7	17.5	
Reported PAT	1,133	1,376	1,602	2,482	2,923	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
Share Capital	1,360	1,360	1,360	136	136	
Reserves	1,138	1,351	1,445	671	1,200	
Net Worth	2,498	2,711	2,805	807	1,336	
Loans	40	44	43	44	44	
Deferred Liability	-86	-76	-257	-288	-324	
Capital Employed	2,452	2,678	2,591	562	1,055	
Gross Block	3,244	4,035	4,115	4,465	4,715	
Less: Accum. Depn.	-2,447	-2,435	-2,438	-2,616	-2,805	
Net Fixed Assets	797	1,600	1,677	1,848	1,910	
Capital WIP	675	91	243	91	91	
Investments	1,608	1,483	1,333	0	500	
Curr. Assets, L&A	2,493	3,014	3,564	2,954	3,361	
Inventory	745	744	803	855	906	
Account Receivables	174	65	93	125	142	
Cash and Bank Balance	561	879	1,117	410	703	
Others	1,014	1,327	1,550	1,564	1,610	
Curr. Liab. and Prov.	3,122	3,511	4,226	4,330	4,806	
Account Payables	2,024	2,386	2,833	3,265	3,684	
Other Liabilities	126	437	324	280	292	
Provisions	971	687	1,069	785	831	
Net Current Assets	-628	-497	-662	-1,377	-1,445	
Application of Funds	2,452	2,678	2,591	562	1,055	

E: M O S t Estimates

RATIOS						
Y/E MARCH	2005	2006	2007	2008E	2009E	
Basic (Rs)						
EPS	8.3	9.6	14.2	18.1	21.5	
Cash EPS	9.9	11.9	15	19.4	22.9	
BV/Share	18.4	19.9	2.1	5.9	9.8	
DPS	7.0	7.5	9.5	12.8	15.0	
Payout %	84.7	78.0	66.8	70.0	70.0	
Valuation (x)						
P/E		40.2	27.2	21.3	18.0	
Cash P/E		32.4	25.17	19.9	16.9	
EV/Sales		4.5	3.9	3.5	3.1	
EV/EBITDA		28.9	24.0	19.5	16.1	
P/BV		19.4	187.1	65.1	39.3	
Dividend Yield (%)		19	2.5	3.3	3.9	
Return Ratios (%)						
RoE	37.3	50.2	70.1	136.3	272.9	
RoCE	45.2	49.5	69.3	133.5	262.8	
Working Capital Ratios						
Debtor (Days)	6	2	2	3	3	
Asset Turnover (x)	57.0	10.2	12.8	31.3	36.0	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
OP/(loss) before Tax	1,506	1,669	2,334	2,946	3,539	
Int./Div. Received	278	147	188	143	121	
Interest Paid	12	6	10	6	6	
Direct Taxes Paid	-700	-469	-704	-578	-684	
(Incr)/Decr in WC	-278	-186	-403	-7	-363	
CF from Operations	817	1,167	1,423	2,510	2,620	
(Incr)/Decr in FA	-751	-197	-412	-228	-287	
(Pur)/Sale of Investments	-449	124	150	1,333	-500	
CF from Invest.	-1,200	-73	-262	1,105	-787	
Issue of Shares	0	0	0	-1,224	0	
(Incr)/Decr in Debt	-17	-4	1	-1	0	
Dividend Paid	-1,078	-1,163	-1,481	-2,033	-2,394	
Others	759	391	557	-1,065	855	
CF from Fin. Activity	-336	-776	-923	-4,323	-1,539	
Incr/Decr of Cash	-719	318	238	-708	294	
Add: Opening Balance	1,280	561	879	1,117	410	
Closing Balance	561	879	1,117	409	703	

N O T E S



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

Colgate Palmolive

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.